DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Item 45, I. D. #6037

ENERGY DIVISION RESOLUTION E-4030

October 5, 2006

R E S O L U T I O N

Resolution E-4030. San Diego Gas & Electric Company proposal to continue its ERRA commodity credit amortization and to employ other actions in response to the July 2006 heat storm.

By Advice Letter 1827-E. Filed on August 31, 2006.

SUMMARY

This Resolution addresses San Diego Gas & Electric Company's (SDG&E) proposal to continue its ERRA commodity credit amortization until December 31, 2006 and to employ other actions related to the July 2006 heat storm. We make the following modifications:

- SDG&E shall continue its ERRA credit mechanism for three months, but shall modify it by adjusting the rate to reflect a 60% residential and a 40% non-residential commodity credit. This will align the credit to the respective estimated contributions from residential and non-residential customers to balancing account overcollections associated with the July 2006 heat storm. The ERRA credit mechanism will end December 31, 2006.

- SDG&E shall increase its Neighbor to Neighbor fund to $1 million.

- SDG&E shall provide a report on the disposition of the enhanced Neighbor to Neighbor fund.

BACKGROUND

SDG&E filed Advice Letter (AL) 1827-E on August 31, 2006 proposing to continue a commodity credit and to take additional actions in relation to the July 2006 heat storm.

SDG&E proposes to continue its Energy Resource Recovery Account (ERRA) commodity credit until December 31, 2006.

In response to the July 2006 heat storm and the related impact it has had on customer's bills, and to promote rate stability for its customers, SDG&E proposes to continue a commodity rate credit authorized by Decision (D.)05-09-019 in its ERRA Application (A.)05-06-044. In that decision the Commission authorized SDG&E to reduce commodity rates for one year beginning October 1, 2005 for residential bundled service usage above 130% of baseline, and for all non-residential bundled service usage to amortize a $50.3 million overcollection in its ERRA. Rather than end the amortization of the overcollection on September 30, 2006, SDG&E proposes to continue the commodity rate credit through the end of 2006. Postponing the commodity rate credit from October 1, 2006 until January 1, 2007 would result in a credit of approximately $13 million to bundled customers other than residential customers' usage in Tiers 1 and 2.[1]. SDG&E proposes to end the credit as a part of its annual electric consolidated rate filing, effective January 1, 2007.

SDG&E's Neighbor to Neighbor Program provides help to customers impacted by the heat storm.

In addition to extending the commodity credit, SDG&E has proposed and publicly announced its $250,000 "Neighbor to Neighbor" (NTN) program to help customers impacted by the heat storm. As of August 31, 2006 not all of this money is committed. SDG&E states that if the NTN funds become fully committed, SDG&E plans to use up to an additional $250,000 out of the over-collection accumulated in its Electric Distribution Fixed Cost Account (EDFCA) due to increased sales during the July heat storm to provide added assistance to impacted customers.

SDG&E has temporarily relaxed turn-off policies for customers impacted by high bills related to the heat storm.

---

[1] Assembly Bill 1X (AB1X) (2001) required rate caps on residential usage up to 130% of the baseline quantities in effect on February 1, 2001. These rates may not increase above the levels in effect on February 1, 2001. Tier 1 rates apply to the baseline quantity, Tier 2 rates apply to additional quantities up to 130% of the baseline quantity.

SDG&E states that it has an internal policy to suspend disconnections for non-payment of bills when temperatures in the San Diego area[2] are projected to exceed 100 degrees for four or more consecutive days. In consideration of high temperatures experienced in July and high customer bills SDG&E states that it has temporarily relaxed service disconnection turn-off policies.

SDG&E will not seek Catastrophic Event Memorandum Account recovery.

Lastly, SDG&E states in AL 1827-E that it does not intend to seek Catastrophic Event Memorandum Account (CEMA) recovery for incremental heat storm expenses. SDG&E has no estimate of how much of its estimated $3 million in expenses would be considered incremental and thus eligible for CEMA recovery.

SDG&E seeks Commission approval of its advice letter by September 30, 2006.

NOTICE

Notice of AL 1827-E was made by publication in the Commission's Daily Calendar. SDG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A and was served on the parties in its ERRA application, A.05-06-044.

PROTESTS

San Diego Gas & Electric Company's Advice Letter (AL) 1827-E was timely protested by the Division of Ratepayer Advocates (DRA) on September 14, 2006.

The Division of Ratepayer Advocates (DRA) recommends rejection of SDG&E's proposal.

DRA recommends that SDG&E's proposal to continue the ERRA commodity credit mechanism through December 31, 2006 not be implemented. Although DRA is concerned about the burdens faced by customers whose bills increased

[2] The temperature trigger is based on coastal and inland temperature forecasts, but excludes the desert areas.

dramatically in July, DRA states that SDG&E's plan would provide little relief to residential customers because the commodity credit mechanism excludes residential usage in tiers 1 and 2 (i.e., usage below 130% of baseline), as well as CARE customer usage.

DRA states that SDG&E's plan will not provide equitable relief to its residential customers through use of the ERRA commodity credit mechanism.

DRA received a data request response from SDG&E where SDG&E estimates that under the proposal filed by SDG&E in this advice letter, only $2 million, or 15% of the $13 million estimated over-collection would be returned to residential customers whose usage is above 130% of baseline. DRA states that based on the sales figures provided by SDG&E for the month of July, actual system sales were 169,296,933 kWh higher than the forecast used to establish rates. Residential sales represented 61.35% of the actual July 2006 sales. Given that residential sales represented more than 60% of the total sales, DRA concludes that SDG&E's plan to give back 15% of the total over-collection to residential class will not provide equitable relief to its residential customers.

DRA's alternative suggestion is to calculate a new credit that would target those customers who contributed the most to the overcollection.

DRA suggests that the Commission deny SDG&E's plan and instead allow the over-collections of July 2006 to flow to ratepayers through balancing accounts trued-up in January 2007. In the alternative, if the Commission insists on immediate rate relief for SDG&E customers, DRA recommends calculating a new credit that would target the relief to the residential class and to the residential tiers 3, 4 and 5 in particular, who contributed the most to the over-collection due to high rates applicable to these tiers.

SDG&E recommends that DRA's protest be denied.

SDG&E replied to DRA's protest on September 18, 2006. SDG&E states that DRA's contentions are misguided and that "postponing the end of the amortization along with the additional measures being taken as a result of the extreme summer heat, are appropriate."

SDG&E states that DRA mistakenly describes SDG&E's proposal as a "refund" rather than an extension of a credit mechanism which provides ratepayers a benefit for a few more months. SDG&E also notes that DRA's protest and recommendation to deny AL 1827-E would also deny SDG&E's additional measures taken to assist low income customers, in particular to those participating in its Neighbor to Neighbor program. In the interest of providing immediate relief to ratepayers, SDG&E recommends denying DRA's protest.

DISCUSSION

SDG&E has been amortizing a $50.3 million ERRA overcollection since October 2005 to return refunds from energy suppliers.

Under the provisions of its adopted ERRA trigger mechanism, SDG&E filed A. 05-06-044 on June 29, 2005, seeking to amortize a $50.3 million overcollection in its ERRA over a 12-month period. The overcollection was due largely to Federal Energy Regulatory Commission (FERC) settlement refunds from Mirant and El Paso Natural Gas Company that were credited to the existing ERRA balance. These refunds related to overcharges made by energy suppliers in 2000 and 2001. The Commission issued D.05-09-019 on September 8, 2005, approving SDG&E's proposal. SDG&E began amortizing the $50.3 million balance beginning October 1, 2005 by providing commodity rate credits on an equal cents per kWh basis to all bundled service customers' consumption other than residential customers' usage in Tiers 1 and 2. This credit resulted in an SDG&E total system average electric rate reduction of 0.32 cents per kilowatt-hour (kWh), or 0.459 cents/kWh for residential usage in Tiers 3, 4, and 5 and for nonresidential usage.

In its 2005 ERRA application, SDG&E proposed to amortize the ERRA overcollection based on the existing allocation methodology for a SONGS[3] generation revenue requirement reduction used in its 2004 Cost of Service proceeding (D.04-12-015)[4]. Consistent with AB1X, this method excluded crediting or otherwise changing residential Tier 1 and Tier 2 rates. In D.05-09-019, the Commission found this methodology reasonable "because all revenue requirement increases for the residential class were allocated to usage above 130% of baseline."

---

3 San Onofre Nuclear Generating Station Units 2 and 3.

4 D.02-10-062, *mimeo*, pp.63-65. Also, *see* Pub. Util. Code §454.5(d)(3).

SDG&E's July 2006 heat storm proposal would provide rate relief to bundled customers by reducing ongoing commodity costs.

The credit proposed by SDG&E in AL 1827-E to address the July 2006 heat storm would extend the ERRA commodity credit for three months to the same, bundled service usage other than residential customers' usage in Tiers 1 and 2. In other words, SDG&E proposes to not increase commodity rates for its bundled service customers through the end of the year, by extending the ERRA commodity credit for three months. This credit would apply to customers in the residential class with usage above 130 % of baseline in tiers 3-5. CARE customer usage in those tiers would also see a reduction. This would result in an estimated additional $13 million being returned to bundled service customers from the ERRA account. This amount would be offset by overcollections accrued in the ERRA and other accounts as a result of high electricity usage resulting from the July heat storm. If the ERRA credit is not extended, rates would increase on October 1, 2006, and change again on January 1, 2007, when balances in balancing accounts are amortized in rates.

Residential customers contributed approximately 60% of the extra July usage and overcollection.

The July heat storm created unprecedented demand on all of California's electric systems, and SDG&E's sales, particularly to residential customers, increased sharply. SDG&E estimates that residential customers' share of the overcollected revenues as a result of increased sales in July 2006 was 60%. Since SDG&E's residential customers likely contributed to the majority of the revenue overcollection caused by increased July sales, they should benefit proportionally. If the ERRA credit mechanism is continued for the final three months of 2006, it must be modified to reflect the estimated 60% contribution to the July overcollections made by the residential customers.

SDG&E shall adjust the ERRA credit mechanism to provide a greater credit to residential customers.

The existing ERRA mechanism provides a commodity credit to all customer usage other than residential customers' usage in Tiers 1 and 2 on an equal cents/kWh basis. We will allow SDG&E to extend the ERRA commodity credit for the final three months of 2006 in recognition of the financial burden on customers created by high bills resulting from the July 2006 heat storm. At the same time we require that SDG&E adjust the commodity credit allocation so that residential customers with usage above 130% of baseline in Tiers 3, 4, and 5 are provided with a benefit more commensurate with their contribution to the revenue overcollections due to the July heat storm. SDG&E shall adjust the credit such that residential usage above 130% of baseline receives 60% of the estimated $13 million ERRA over-collection with 40% of the over-collection applied to non-residential customer rates. This allocation of the over-collection will result in residential customers receiving approximately $7.8 million, and non-residential customers receiving approximately $5.2 million of the estimated total over-collection of $13 million. Compared to the SDG&E proposal, this will result in a slight reduction in commodity rates for residential customers and slightly higher commodity rate for non-residential customers from October through December 31, 2006. We believe apportioning the credit in proportion to each class's contribution as directed here is more equitable than SDG&E's proposal. Although non-residential commodity rates slightly increase under this method, the increase is lower than it would be if we deny SDG&E's proposal to extend the ERRA commodity credit.

The modified ERRA credit mechanism should be implemented no later than October 15, 2006.

Continuation of the modified ERRA credit mechanism that we adopt today should be implemented no later than October 15, 2006. SDG&E shall terminate the ERRA commodity credit on January 1, 2007. We require SDG&E to report to the Director of the Energy Division by June 30, 2007 the total amount of the ERRA commodity credit provided to residential customers, and the amount provided to non-residential customers for the period from October 2006 through December 2006.

SDG&E customers experiencing temporary financial hardship qualify for assistance through the Neighbor to Neighbor Program.

SDG&E described its NTN program, stating that the amount of program funding varies, depending on the need and the level of contributions received, but that it has provided $250,000 in 2006 in anticipation of the high electric bills resulting from the summer heat wave. The NTN program has been funded by shareholders, SDG&E employees, and customer contributions. SDG&E states that customers experiencing temporary financial hardship qualify for assistance through the NTN program. Customers who qualify for government energy assistance are first referred to the Federal Low Income Home Energy Assistance Program (LIHEAP) program administered by the State of California. If they do not qualify for LIHEAP or have already received LIHEAP assistance within the calendar year, they are considered for assistance from NTN. Customers in need can contact SDG&E's call center or San Diego's local health and community service information call line, 2-1-1. SDG&E also states that it has relaxed its service turn-off policies for customers impacted by high bills related to the heat storm. We commend SDG&E for these sensitive responses.

For customers in need of help, SDG&E proposes a voucher system to credit payments to customers' bills. SDG&E's proposal is appropriate.

SDG&E comments that, in general, a customer in need should have a past-due (two-month) bill to receive assistance. A co-payment is requested from the customer and up to $100 per calendar year can be provided from the NTN program. (This amount was recently changed from $200 so that more customers could be helped.) The NTN program is administered by SDG&E, which uses local community agencies. The program funds are handled by a separate fiscal agent, currently Catholic Charities, with additional help from United Way. A voucher system is used to credit payments to customers' bills.

NTN Program funds should be increased to $1 million.

SDG&E recommends using $250,000 provided by shareholders, with the possibility of using an additional $250,000 provided through ratepayer funding from overcollected revenues in its Electric Distribution Fixed Cost Account (EDFCA) to fund its NTN program. SDG&E has informed Energy Division that these amounts would be sufficient to meet customer needs through the rest of the year. SDG&E informed Energy Division that it would not object if the Commission increased the funding to $1 million, provided that any unused, supplemental funds remaining at the end of the year were returned to the EDFCA.

We approve SDG&E's NTN fund proposal with the modification that SDG&E shall increase the funding level by $750,000 to $1 million to assure a wider coverage to those at risk for service termination. Unspent funds shall not be returned to the EDFCA account at the end of the year. Instead, unspent amounts shall remain in the fund for use by customers risking service termination in subsequent years until SDG&E files its next general rate case (following its 2008 GRC). When SDG&E files that application it shall report on the NTN fund and recommend disposition of any remaining amounts in the fund.

In its report due on June 30, 2007, SDG&E shall provide a status report on how much of the NTN fund has been distributed through May 2007.

COMMENTS

Public Utilities Code section 311(g) (1) requires that draft resolutions be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g) (3) provides that this 30-day period may be reduced or waived pursuant to Commission adopted rule.

The 30-day comment period for this resolution has been reduced in accordance with the provisions of Rule 14.6(c) (9). Rule 14.6(c) (9) provides that the Commission may waive or reduce the comment period for a draft resolution when the Commission determines that public necessity requires reduction or waiver of the 30-day period for public review and comment. For purposes of Rule 14.6(c) (9), "public necessity" refers to circumstances in which the public interest in the Commission's adopting a decision before expiration of the 30-day review and comment period clearly outweighs the public interest in having the full 30-day period for review and comment.

The public necessity in this case is that the Commission needs to address SDG&E's AL 1827-E at the earliest possible meeting so that it may provide some timely financial relief to SDG&E's customers who endured severe hardship as a result of the heat storm of July 2006. DRA and SDG&E were the only parties participating in the review of AL 1827-E. DRA protested and SDG&E commented. DRA did not comment, but its concerns have been addressed and SDG&E has no objection to the draft resolution.

SDG&E submitted comments on the draft resolution on September 28, 2006. In its comments, SDG&E points out that in addition to residential customers' usage above 130% of baseline being eligible for the ERRA credit, residential CARE customers with usage above 130% of baseline are also eligible for the credit. We clarify the resolution by including CARE customers with usage in Tiers 3-5 as eligible for the ERRA credit through December 31, 2006.

SDG&E also states that "(i)n addition to the increased NTN funds made available through the EDFCA, SDG&E plans to continue the current funding that includes shareholder, employee, and customer donations to the program. Disposition of the additional funds made available through the EDFCA will be reported as part of SDG&E's next GRC."

In this case, the public necessity requiring a reduction in the comment period outweighs the public interest in having the full 30-day period for review and comment. Thus, pursuant to Rule 14.6(c) (9), we provide for a shortened comment period.

FINDINGS

1. SDG&E filed AL 1827-E on August 31, 2006 proposing to continue its ERRA commodity credit amortization through December 31, 2006 in order to provide a continuing credit to bundled customers other than residential customers' usage in Tiers 1 and 2.

2. SDG&E also proposes in AL 1827-E to place up to $500,000 in its Neighbor to Neighbor program to assist customers with funds to avoid service termination.

3. SDG&E also proposes in AL 1827-E to relax its service turn-off policies for customers impacted by high bills related to the July 2006 heat storm.

4. The ERRA amortization mechanism used by SDG&E applies to all bundled customer usage other than residential customers' usage in Tiers 1 and 2.

5. Continuing the ERRA commodity credit mechanism through the end of 2006 will provide rate relief to customers by reducing commodity costs.

6. Residential usage contributed approximately 60% to the estimated $13 million over-collection during July 2006.

7. The existing ERRA mechanism provides a commodity rate credit on an equal cents per kilowatt-hour basis.

8. SDG&E should adjust the ERRA credit mechanism to provide a greater credit to residential customers, including CARE customers, whose usage is above 130% of baseline in Tiers 3, 4 and 5.

9. Compared to SDG&E's proposal, adjusting the ERRA commodity credit mechanism to reflect a 60%-40% allocation between residential and non-residential customers will decrease commodity rates more for residential customers beginning in October 2006.

10. Compared to SDG&E's proposal, adjusting the ERRA commodity credit mechanism to reflect a 60%-40% allocation between residential and non-residential customers will slightly increase commodity rates for non-residential customers beginning in October 2006. This rate increase would be greater if SDG&E's request to extend the ERRA commodity credit is denied.

11. Continuation of the ERRA commodity credit mechanism as modified by this Resolution should be implemented no later than October 15, 2006.

12. SDG&E should terminate the ERRA commodity credit mechanism adopted by this Resolution effective January 1, 2007.

13. The Neighbor to Neighbor fund should be augmented by $750,000 to $1 million.

14. Unused NTN funds should roll over for use in 2007 and in subsequent years until SDG&E files its first general rate case, following its 2008 GRC.

<u>THEREFORE IT IS ORDERED THAT:</u>

1. The request of San Diego Gas & Electric Company to continue its ERRA commodity credit amortization through December 31, 2006, and to implement other measures as proposed in Advice Letter 1827-E is approved, with the following modifications:

   a. SDG&E shall modify the ERRA commodity credit to provide a 60%-40% allocation of the credit between residential and non-residential usage.

b. The amount allocated to residential usage shall include residential CARE usage and shall be applied to usage in tiers 3, 4 and 5 only.

c. The proposal as modified here by this Resolution shall be implemented no later than October 15, 2006.

d. SDG&E shall increase funding in its Neighbor to Neighbor (NTN) program by $750,000 to $1 million from funds overcollected from July 2006 usage. Unused funds shall roll over for use in 2007 and in subsequent years until SDG&E files its first general rate case following its 2008 general rate case application. SDG&E shall propose a disposition of any unused NTN funds in that future general rate case application.

e. SDG&E shall submit a report to the Director of the Energy Division by June 30, 2007. In its report SDG&E shall identify the total amount in dollars provided to both residential and non-residential customers through the ERRA commodity credit adopted by this Resolution for the October 2006 through December 2006 billing periods. The report shall also identify how much of the $1 million authorized for the NTN program has been distributed to eligible customers through May 2007.

2. The ERRA commodity credit mechanism adopted by this Resolution shall terminate effective January 1, 2007.

3. Within 7 days of today's date, SDG&E shall supplement AL 1827-E with revised tariffs to describe the ERRA commodity credit mechanism and other measures that it shall implement pursuant to this Resolution. The supplemental advice letter shall replace SDG&E's AL 1827-E in its entirety. SDG&E shall state in this supplemental advice letter what the revised commodity rates are and when it intends to implement the ERRA commodity credit adopted by this Resolution. The supplemental advice letter shall be effective on today's date, subject to Energy Division determining that it is in compliance with this order.

4. The protest of the Division of Ratepayer Advocates on SDG&E's AL 1827-E is resolved as described herein.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on October 5, 2006.

STEVE LARSON
Executive Director